Photo: Annie Shattuck

Julio Cesar Rumaldo, member of Cooperativa La Concordia, Tacuba, El Salvador, sorting coffee cherries from his harvest.

Fair to the last drop: Corporate challenges to Fairtrade

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In the wake of the recent extraordinary market expansion of fair trade –and in the midst of a mild rebound in the coffee market– the fair trade movement is coming under criticism. Even student groups, social justice groups, and some fair trade roasters are questioning the development claims, the "fairness" and the future of the fair trade coffee industry, for very different reasons. Farmers' organisations, such as *La Via Campesina* and the Brazilian Landless People's Movement (MST), challenge the fair trade movement to work politically for structural change. Many ethical consumers and fair trade activists are also uncomfortable about selling Fairtrade-certified products through multinational corporations with unfair labour practices and monopolistic market power.

The Fairtrade Labelling Organization International (FLO) and Fairtrade certifiers promote the idea that Fairtrade should become more "mainstream". Most recent criticism revolves around this strategy. For the largest coffee buyers, Fairtrade makes up only a tiny proportion of their coffee purchases. For these companies Fairtrade is not a social movement or a business ethic, but rather a public relations opportunity and a profitable niche. One Fairtrade product can make the whole brand seem socially responsible, even though the corporation continues to buy the vast majority of its coffee on the conventional market. This phenomenon has many actors in Fairtrade questioning the meaning of fair trade.

Is the goal to help as many peasant farmers as possible by selling as much Fairtrade coffee as possible? Or is the goal to transform coffee's historically unfair market structures? Are markets the engine for social change or are social movements the force to change markets? These questions reflect the growing disagreement among Fairtrade advocates over whether it is advisable to mainstream Fairtrade through the very corporations and market structures that provoked the coffee crisis in the first place.

Social change and value chains

Although the Fairtrade premium provided an important safety net during the worst of the coffee crisis, recent studies question many of the development claims reported by certifiers and corporate retailers.

In a study of Mexican and Central American coffee farming families and communities, researchers from the Community Agroecology Network (CAN), reported that there were no significant differences in the ability to send children to school or the level of food security between Fairtrade and non-Fairtrade farm families. The CAN study did not find evidence that Fairtrade certification alone empowered farmers to lift themselves out of poverty. Instead, the researchers noted that the co-operative that seemed to benefit most from Fairtrade had a direct relationship with a North American buyer that bought all of their coffee at a price above the Fairtrade minimum every year.

Studies also suggest that the development successes claimed by Fairtrade are as much due to the efforts farmers put into local organising as they are to certification. At the very least, there appears to be a mutually beneficial relation between higher premiums and the extensive social and political work carried out by farmers' movements. Under these circumstances, it is difficult to imagine Fairtrade even taking root without building upon the historical agrarian struggles for land reform, co-operative organisations, and indigenous rights. However, none of this is reflected in corporate marketing of Fairtrade, where development claims are politically sanitised for mass consumption. At best, co-operation –not struggle– is emphasised.

Minimum wage or living wage?

In December 2006, the Association of Co-operatives of Small Coffee Producers of Nicaragua (CAFENICA) and the Co-ordinating body of Small Fair Trade Producers in Latin America and the Caribbean (CLAC) submitted a report to FLO requesting a 15 cent per pound Fairtrade price increase. Citing a lack of information, FLO initially denied the request and postponed talks. After pressure from farmers' organisations and consumer groups, FLO agreed to a five cent per pound increase.

The CLAC report and other impact studies expose some of the drawbacks within the Fairtrade certification process and its market mechanisms. Fairtrade's minimum price was a lifesaver during the coffee crisis. But it was never pegged to farmers' cost of production or cost of living, and it is now increasingly less effective at ensuring social benefits. Some studies indicate that farmers now lose money under Fairtrade – they just lose less than conventional growers. By pursuing a mainstream approach, Fairtrade ensures more of a "minimum wage" rather than a "living wage". Now, farmers represented in CLAC who seek a "living wage" for their coffee are at odds with Fairtrade certifiers, who must keep the price low if they are to mainstream Fairtrade through large corporate retailers.

Alternatives to corporate Fairtrade

Trading arrangements as practised by many of the Alternative Trade Organisations (ATOs) do improve the conditions and opportunities for the coffee co-operatives with whom they trade directly because certification is seen as a floor and not a ceiling. Roasters like Equal Exchange in the U.S. and Cafédirect in the U.K. are committed to selling 100 percent Fairtrade certified coffee, and using certification as a point of departure for forming meaningful, long-term partnerships with producer co-operatives. Thanksgiving Coffee pays quality premiums up to 40 cents over the Fairtrade price. Owner Paul Katzeff searches out certified organic co-operatives and helps them obtain Fairtrade certification, and then works diligently with the producing communities to help improve the quality of the coffee. CAN's direct trade model localises the value added process and provides an alternative model to certification (see related article on p.28). Other companies are jointly owned by participating farmers' organisations. Farmer-ownership models not only return more of the retail value to farmers, they give farmers more sovereignty in the process of bringing their produce to market.

The Alternative Trade Organisations share a number of characteristics that differentiate them from the much larger, corporate Fairtrade players, as follows:

- *Transparency*. Fairtrade certified producers are required to open their books to auditors. Conversely, most large corporations who retail the coffee are secretive about how much Fairtrade coffee they sell. "Movement" companies are largely transparent about how much they pay farmers for their coffee, and what portion of their sales is Fairtrade.
- *Long-term commitment*. "Movement" companies work with producer co-operatives to invest in the quality of their coffee. This might mean training coffee tasters to be able to recognise and strive for quality coffee, or helping farm co-operatives diversify their production into other products, or supporting health and education projects.
- *Localising the value of coffee*. Traditionally, most of the value of coffee is exported, generating big profits at the roasting and retailing stages of the value chain. Even if farmers sell at the Fairtrade price, this unequal balance of power remains. "Movement" companies pursuing farmer-owned and direct trade initiatives allow more of the value of coffee to remain in the producing community.

Beyond the mainstreaming debate: Fairtrade and food sovereignty

Fairtrade's mainstreaming debate reflects growing disagreements on the fairness, development claims, and the future of Fairtrade. These differences are rooted in tensions between market-based and movement-based strategies for social change. On one hand, market-based certifiers champion the benefits of the increased volume made possible by a relatively low Fairtrade floor price. On the other, many producers and ATOs argue for prices based on production costs, and worry about the loss of control and authenticity of Fairtrade.

Prodecoop in Nicaragua

One of the most important roles of Fairtrade has been to help build and sustain farmers' co-operatives. In Nicaragua, when the leftist Sandinista government lost power in 1990, farmers' co-operatives found themselves without any government support. They formed co-operatives to provide marketing, credit, and other programmes. Prodecoop (Promotion of Co-operative Development of the Segovias region), was the first such organisation. Rosario Catellón, co-founder of Prodecoop, tells the story:

"In 1991, the first co-operatives that today make up Prodecoop first exported to the U.S. based fair trade coffee buyer, Equal Exchange. Some of the co-operative members of Prodecoop had taken out loans during the Sandinista revolution, but the new government demanded immediate repayment. The bank held their coffee crop as collateral, and put their land into foreclosure. The representatives of the member co-operatives came to the Prodecoop offices with this difficult situation.

"Jonathan Rosenthal, then Executive Director of Equal Exchange, listened to the co-operatives, and took the risk that no bank or other financial institution was willing to take. He advanced us a portion of the purchase of our coffee. After negotiations with the bank, Prodecoop bought the coffee back from them, promising to apply all the income from the sales to pay off the co-operatives' debts.

"Equal Exchange contributed to bringing Prodecoop out of anonymity. They were the first buyer of our coffee, and helped to make it known in the North American market. Jonathan Rosenthal and Equal Exchange have been dedicated to building bridges, so that those who have historically been at a disadvantage can pass over to the other side, where the coffee industry is, and break the long chain of intermediaries. In this way, they can access better incomes; alleviate poverty; achieve economic, environmental, and social sustainability; and most of all regain their hope for the future and for themselves. The small farmers of Prodecoop never imagined that they would, over and over again, be sitting down to negotiate face-to-face with North American and European coffee importers and roasters. Prodecoop has been an example for the country and the world. It has motivated the resurgence of many co-operatives of small farmers in Nicaragua and in other countries."

Photo: Annie Shattuck

Members of Cooperativa La Concordia, like coffee farmers all over the world, deserve a fair price for their products.

This puts the Fairtrade movement in a difficult position. If the movement is isolated from the mainstream, it may not be relevant enough to change the farmers' situation. But by interacting with the mainstream without asking critical questions, the movement risks becoming diluted, and the benefits may decrease. The mainstreaming emphasis of Fairtrade risks marginalising activists and farmers – the very drivers of social change that make Fairtrade more than just a "slightly better market" for poor coffee farmers.

The fairness of Fairtrade is more than a simple ethical debate. Fairness regarding transparency, risk, labour practices and profits are a reflection of market power. In the present unregulated coffee market, rules are set by those who control the most lucrative parts of the value chain: roasting and distribution. Until farmers are able to own substantial shares in roasting and distribution, they will always be subject to the levels of "fairness" acceptable to those who control the coffee market. Luckily, there are already encouraging experiments within the larger Fairtrade coffee community that shift power in the value chain towards the coffee producers. Scaling up these experiences would help tip Fairtrade's balance of power in favour of farmers rather than large corporations.

Safety net or development strategy?

The neoliberal position that markets themselves are sufficient to reduce poverty, end hunger, and promote sustainable development, is a notion that has been refuted by two decades of disastrous corporate-led globalisation. Fairtrade marketers who claim that Fairtrade "empowers farmers" are in essence claiming that certification is the small adjustment needed to make good on the neoliberal promise.

When coffee prices dropped catastrophically in 2001 and 2002, it became clear that Fairtrade price floors provide an essential safety net for farmers. One can find hundreds of testimonies from farmers who are acutely aware of this value, because they are widely published on the websites and promotional materials of certifiers and coffee companies that market Fairtrade products.

However, the farmers who organise co-operatives, the students and consumers who advocate for Fairtrade, and the NGO advocates that run major Fairtrade campaigns have something more than a safety net in mind: they want an end to hunger, poverty, and the extreme injustice brought about by "free" trade. They don't want to settle for a safety net, they want Fairtrade to be a strategy for sustainable development.

While such safety nets ensure farmers security from steep price drops and extreme poverty, a comprehensive development strategy is needed to provide farming communities and organisations opportunities to strengthen local institutions and farmers' market power. It is clear that certification –the kind of certification that is being adopted when big corporate players get into the Fairtrade business– fails to deliver on these larger issues.

To make good on its development claims, rather than mainstreaming, Fairtrade needs to intensify its work with peasant movements to roll back corporate globalisation and re-establish the social institutions and rural policies needed for productive, healthy agriculture.

Looking forward: building market sovereignty

The future of Fairtrade depends on the degree to which it can bring producers, consumers and roaster-distributors not just into its market, but into the growing social movements for agrarian change. It is clear that movement building depends on a sense of belonging, commitment and participation in decision-making. But because Fairtrade is a business as well as a movement, this participation also depends on ownership. To ensure the politically committed participation of farmers in Fairtrade, they must not only be "stakeholders" in development, but "shareholders" in the business. Giving farmers a majority stake on the FLO board of directors would go a long way towards this goal.

It is unlikely that large corporations will advance a farmer-driven, movement agenda for social change within Fairtrade. They will attempt to sell as little Fairtrade coffee as possible at the lowest possible price, counting on their vast market power to keep Fairtrade farmers coming to them. This is not a reason to give up the Fairtrade market. On the contrary, to keep Fairtrade from becoming irrelevant to farmers' livelihood struggles, it is up to alternative organisations, NGOs, and activists to help poor coffee farmers grow not just their market, but their market power; not just their business, but their controlling share within the business.

Ultimately, the ability to hold the corporate players in Fairtrade publicly accountable to more equitable standards depends on the degree that the Fairtrade movement advances farmers' market sovereignty – the ability to determine how to produce, process, sell and distribute in ways that are fair and sustainable. Building market sovereignty from the premium floor up will certainly not be easy, and will be strongly resisted by the corporate players.

Fortunately, the Fairtrade movement is dynamic and constantly evolves new forms of social, economic and political organisation. Even FLO surprised sceptics by rewriting its constitution to include seats for farmers' organisations on its board of directors, taking concrete steps towards letting farmers finally participate in ownership of Fairtrade certification. As farmers' power grows within Fairtrade, and as the movement links strategically with peasant and consumer movements for social change, Fairtrade will be well positioned to make good on its development claims.

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